HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Regina CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2011

NEW HOME MARKET

Housing starts to remain elevated through 2012

So far this year, a strengthening economy characterized by job growth, rising incomes, and sustained in-migration has bolstered demand for new housing in the Regina Census Metropolitan Area (CMA). In response, area builders have ramped up new home production and are on course to initiate 1,490 housing units, up 11 per cent from the prior year. This will represent the highest annual production since 1987 and mark consecutive years of elevated production by the region's builders. At 1,140 units, total housing starts to the end of September have outpaced last year's corresponding output by 24 per cent.

Figure 1

Source: CMHC, CMHC Forecast (f)

[1]The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 5, 2011, except for the addition of new information regarding the British Columbia and Nova Scotia shipbuilding contracts of October 19th, 2011.

[2]Multiple Listing Service ® (MLS ®) is a registered trademark owned by the Canadian Real Estate Association.

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Next year, sustained job creation and wage increases will again characterise the economic landscape, maintaining heightened demand for housing. As well, the prevalence of low mortgage rates through 2012 will continue to encourage prospective homebuyers and spur new home production.

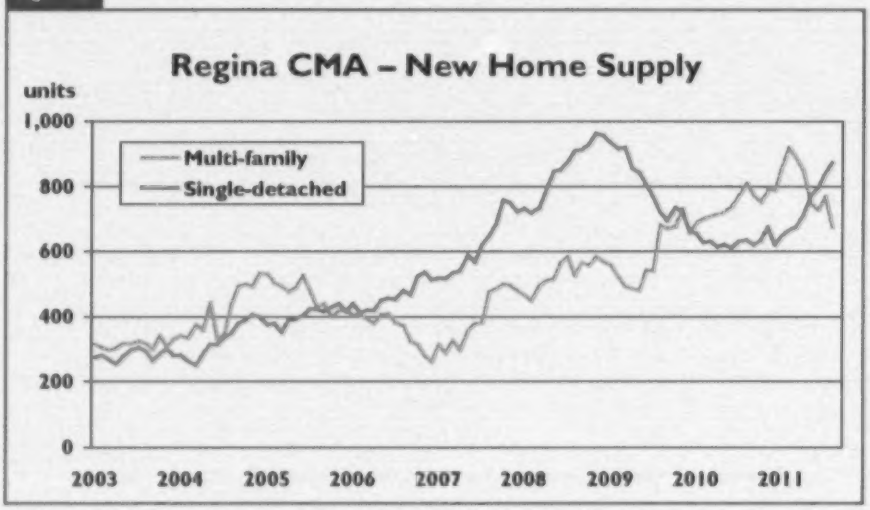
Countering the supporting factors above, headwinds in the form of continued advances in the price of new homes and an elevated supply of new units, particularly units under construction, will temper housing starts in the months ahead. As well, a slower pace of resale price growth is expected over the forecast period. This, in conjunction with a wide choice of listings in the competing resale market, will also prompt some prospective buyers to turn to an existing unit to meet their housing needs. As a result, total housing starts in Regina next year will remain strong, yet decline four per cent as local builders begin construction on 1,425 units.

Single-detached starts to decline in 2012

Regina's expanding economy along with the prevalence of low mortgage rates continues to maintain elevated demand for single-detached homes. As a result, the region's builders have boosted construction of homes this year. Following a 24 per cent year-over-year increase in 2010, single-detached home builders are on track to initiate 840 units this year. This will mark a 19 per cent improvement over the 708 units that broke ground last year and represent the third highest annual production since 1988.

The 690 single-detached units that began construction to the end of September represent a 30 per cent increase from the corresponding

Figure 2



Source: CMHC

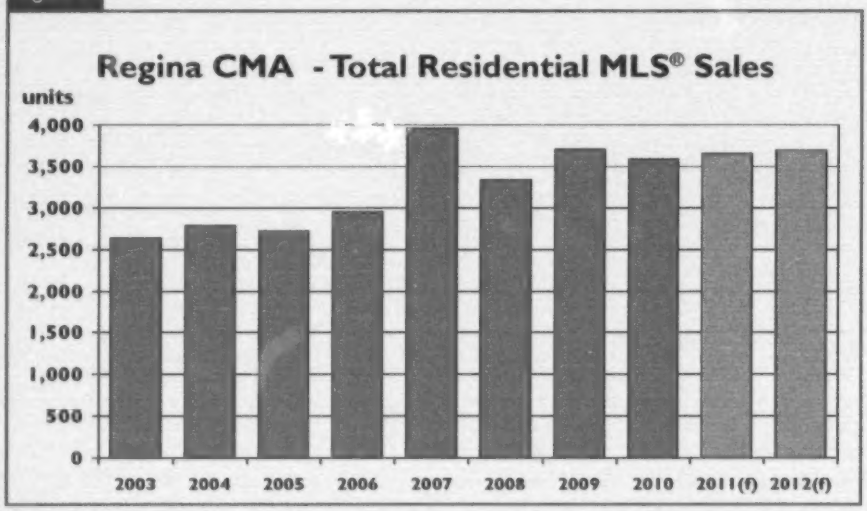
period last year when 531 units were initiated across the CMA. Recently, this brisk pace of starts has begun to fuel an increase in new home supply across Regina. After 20 consecutive months of year-over-year reductions, the total supply of single-detached homes (units in inventory and under-construction) began advancing in February 2011. The 874 units of supply at the end of August marked a 38 per cent year-over-year increase, and surpassed the 10-year average of 483 units.

Moving forward, we expect the currently heightened pace of starts to moderate as rising house prices and accompanying increases in homeownership costs temper demand. This will spur additional increases in the inventory of complete and unabsorbed units in the near future, encouraging builders to slow the pace of construction. Countering the above factors, however, are expectations of continued wage and employment growth and relatively high levels of in-migration this year and next. This will mitigate some of the impact of rising house prices and sustain demand for single-detached housing. As well, anticipated resale price gains, although down from recent years, will provide a boost to move-up buying as homeowners take advantage of the increased equity in their existing homes and purchase new houses with more amenities. On balance, the stage is set for another busy year as home builders initiate construction on 800 single-detached units in 2012.

New House Prices rise through 2012

Following a 5.2 per cent increase in 2010, Regina's New House Price Index (NHPI), which measures the difference in price of homes where the specifications remain the same between two periods, is expected to rise by 4.4 and 3.9 per cent, respectively, in 2011 and 2012. As was the case last year, Regina's land component of the NHPI will account for the bulk of the gains over the next two years due to strong demand for newly developed lots. Successive years of elevated new home production will also maintain upward pressure on the

Figure 3



Source: CREA, CMHC Forecast (f)

house-only component of the NHPI, driving up the costs of labour and building materials. Nevertheless, the expected completion of some major capital projects across Metro this year and in early 2012 should free up some resources and relieve some of these pressures.

Backed by growing wages and low mortgage rates, new homebuyers in Regina continue to purchase higher-priced homes with more ammenities. To the end of August, 26 per cent of all single-detached absorptions occurred above $500,000, up from 19 per cent during the corresponding period last year. This compositional shift will help fuel a 7.5 per cent increase in the average absorbed price to $472,000 this year. Next year, buyers will face higher prices and monthly carrying costs. In addition, those looking to upgrade their existing homes will carry forward weaker equity gains compared to previous years. Thus, the shift to higher price ranges will slow, with the average absorbed price rising 3.8 per cent to $490,000 in 2012.

Multi-family builders to maintain strong production through 2012

The prevailing low mortgage rate environment continues to support the multi-family housing sector in retaining its attractiveness to buyers seeking a lower-priced option to the single-detached sector. As well, due to the relatively easier maintenance associated with homeownership within this sector, apartment and row style condominiums have proven attractive for a growing number of empty-nesters looking to downsize and capitalize on the equity gains from their existing homes. At the same time, low vacancy rates in Regina's rental market are supporting the construction of rental units.

So far this year, Regina's multiple-family homebuilders have exceeded the strong pace of activity set in 2010. To the end of September, multi-family starts have totalled 450 units, 15 per cent higher than the previous year. While advances in prices will present some challenges to housing demand over the forecast period, Regina's expanding population along with low vacancy rates and sustained job and wage growth will nonetheless maintain elevated demand for multi-unit dwellings. As well, we anticipate that builders will fast-track some activity into the latter months of 2011 in the hopes of avoiding a repeat of production setbacks caused by flooding and unseasonably wet conditions during the opening months of this year. Following a 77 per cent increase to 639 units last year, area builders will maintain strong production over the forecast period, breaking ground on 650 multi-family units in 2011 and 625 units in 2012.

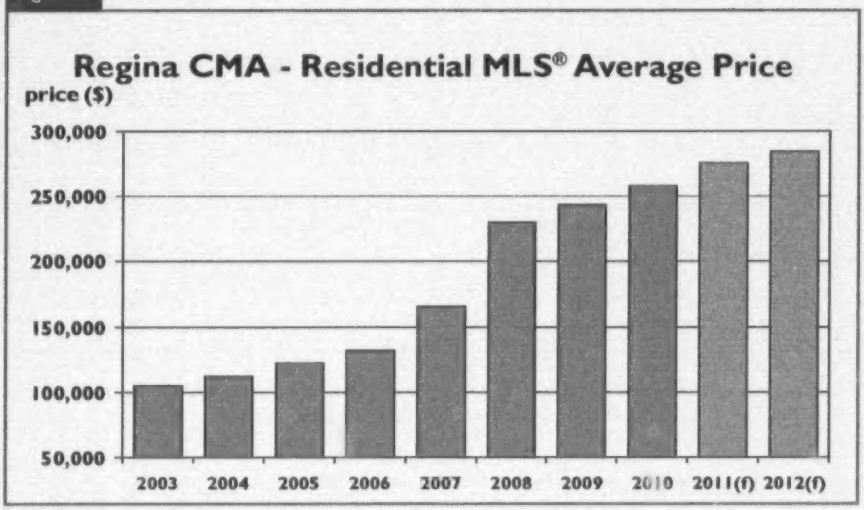
RESALE MARKET

MLS® sales to remain firm over forecast period

Historically low mortgage rates have helped cushion the effects of rising house prices and sustained resale home demand. As well, recent improvements in the labour market have encouraged buyers to finalise existing home purchases. Anchored by a strong summer for sales, resale activity to the end of August was up 3.7 per cent year-over-year. At 1,531 transactions, combined sales from May to August were up 12 per cent from the corresponding period in 2010.

While advances in resale home prices will challenge sales, the combination of low mortgage rates and sustained job and wage growth will help mitigate this and maintain elevated demand for existing homes. As well, the tight rental market conditions that are expected to persist this year and

Figure 4



Source: CREA, CMHC Forecast (f)

next will compel some newcomers and current renters to turn to the resale market to meet their housing needs. Given this, we anticipate that sales will rise to 3,650 and 3,700 units, respectively, in 2011and 2012.

Sustained price gains through 2012

So far this year, favourable mortgage rates, sustained in-migration along with solid employment and wage gains have helped bring about a seven per cent increase in the average resale price. As well, record price advances and subsequent equity gains of recent years continue to encourage some homeowners to trade up to a more expensive unit. Accordingly, to the end of August, 15.3 per cent of all resale transactions occurred above $400,000, up from 12.2 per cent in 2010.

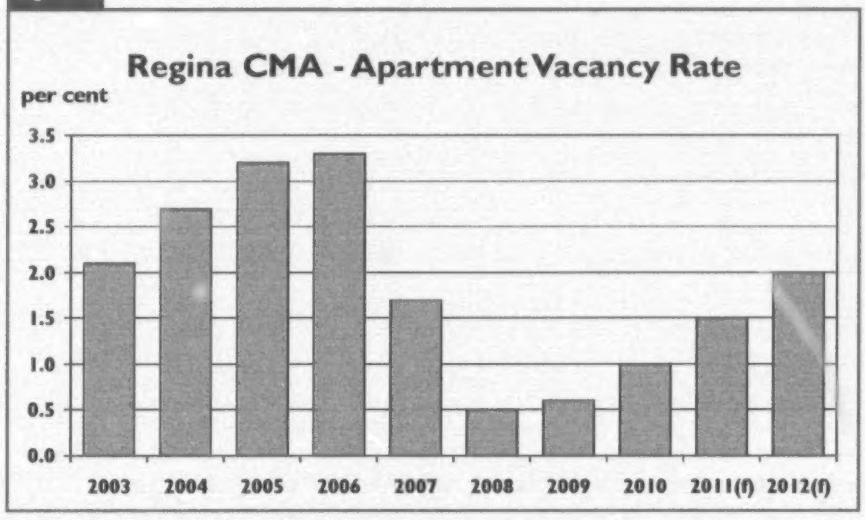
Meanwhile, despite a slight uptick in new listings, the strong pace of sales has driven down existing home supply in Regina. Seasonally adjusted active listings have trended downwards since March. The 1,460 active listings at the end of August marked a 10 per cent year-over-year reduction in inventory. The sales-to-active listings ratio, an important barometer of the state of the market, reached 27 per cent in August, five percentage points higher than the previous year. Under these conditions, buyers face a reduced selection of homes to choose from and fewer opportunities to negotiate lower prices. Given this, price gains will be sustained through the balance of the year, pushing 2011's annual average up seven per cent to $276,000. Encouraged by strong price gains of recent years, more homeowners will list their current homes and upgrade to larger units with more amenities or downsize as they see fit. This will increase the supply of resale homes in Regina and maintain balanced market conditions through 2012. Under these conditions, resale price growth will be tempered to 3.3 per cent in 2012, reaching an average of$285,000.

RENTAL MARKET

Average vacancy rate to rise slowly

With persistent demand maintaining low vacancy rates, renters in Regina's apartment market will continue to face challenges in locating vacant units. The region's strong labour market continues to attract elevated numbers of migrants, sustaining downward pressures on vacancies. In addition, rising house prices and

Figure 5



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

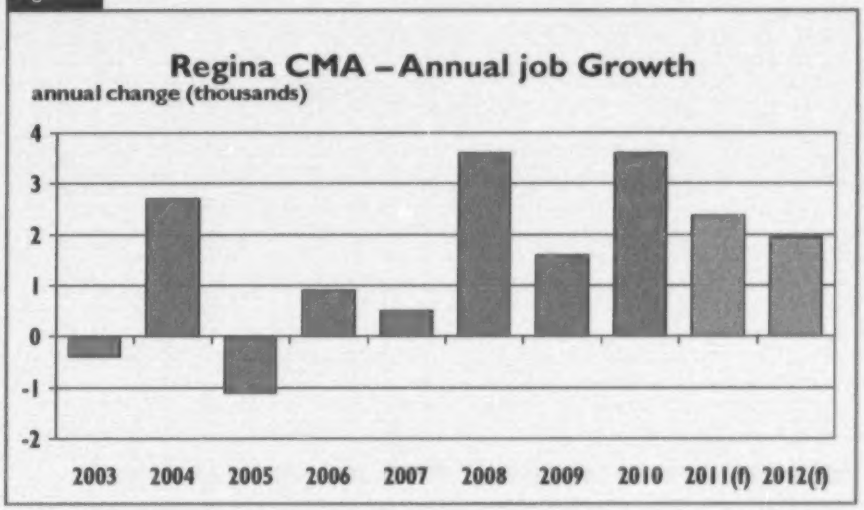
monthly carrying costs continue to widen the monthly expenditure gap between ownership and renting, thus diminishing some of the incentive for renters to move to homeownership. Nevertheless, additions to the rental universe in the form of 256 rental units completed since November 2010, as well as continued competition from the secondary rental market, will lead to a slight uptick in vacancies this year. Expect a modest 0.5 percentage point year-over-year increase, as vacancy rates edge up to 1.5 per cent in October 2011.

Next year, renters in Regina will find it a little easier to obtain a rental unit as the vacancy rate increases to 2.0 per cent. The elevated supply of multi-family units, particularly the 432 apartment units under construction, signals some relief in the months ahead for Regina's renters as some of these units will enter the secondary rental market. These secondary rental suites will provide some competition to Regina's rental property owners, especially in the highest rent ranges. As well, public sector incentives have encouraged increased rental construction and will spur some additions to the rental universe next year. On balance, these factors will account for the increase in average vacancy rates in 2012.

Average monthly rents to rise moderately through 2012

In spite of rising apartment vacancy rates, Regina's expanding population and labour market will ensure that demand for rental accommodation remains strong over the forecast period, spurring increases in average rents. That said, rents will increase at a more moderate pace as property managers seek to prevent tenant turnover. Hence, following a $49 monthly increase last year, the average monthly rent for a two-bedroom apartment is forecast to advance $39 to $920 in the October 2011 survey. Next year, buoyed by additions of newer units at the higher price ranges and still relatively low vacancies, the average monthly rent for a two-bedroom apartment is projected to rise to $950.

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

ECONOMIC OUTLOOK

Employment expansion continues through 2012

Despite uncertainty in the global economy, the increased demand for several commodities has bolstered local production, strengthening economic activity across Regina in 2011. The potash market continues to improve, with prices rising along with demand and production. As well, the energy sector has remained active so far, indicative by the growth in the number of rigs drilling which remain well above last year's level of activity. Concurrently, Regina continues to benefit from the heightened pace of both public and private sector infrastructure spending.

The economy continues to generate jobs, with average employment to the end of August advancing 3.2 per cent year-over-year. Strong labour market conditions have fuelled a 6.5 per cent growth in Statistics Canada's average weekly earnings to the end of August, motivating increasing numbers of job seekers to enter into the labour market. At 74.6 per cent in August, Regina recorded its highest labour market participation rate since January 1991. Recently, the steady additions to the labour force have outstripped job creation, pulling the unemployment rate up to 5.1 per cent through August from 4.7 per cent a year prior, still among the lowest of CMAs.

Moving forward, the heightened pace of infrastructure spending is expected to wane as several projects wind down. This should not pose major concerns, however, as resurgent commodity and energy prices will help boost capital spending, ensuring that

Regina will continue to draw in large amounts of private sector investment in new projects. Major capital projects currently include the on-going $1.9 billion refinery expansion, which is scheduled for completion in 2012. As well, construction crews will be busy completing work on several commercial, transportation, highway expansion, and downtown redevelopment projects.

In opposition to the supporting factors is the persistently high Canadian dollar which continues to temper exports to Saskatchewan's primary export market, the United States. As well, uncertainty about the global economy could drive down commodity prices, curtailing production. Overall, after a 3.1 per cent expansion last year, the stage is set for a 2.0 per cent gain in employment this year and a further increase of 1.6 per cent in 2012. This will be accompanied by a slight increase in the unemployment rate from 4.8 per cent last year to 5.1 per cent in 2011. Next year, we expect the unemployment rate to average 4.9 per cent.

Net-migration eases but remains elevated through 2012

Last year, Regina's vibrant labour market characterised by its low unemployment rate and rising incomes helped draw a record 3,726 net-migrants into the region. Moving forward, the capital city will be hard-pressed to improve upon this impressive performance. Inter-provincial migration, an important factor in elevated migration levels of recent years, will be tempered by economic expansions in many other Canadian centres. Given this, Regina will be increasingly reliant on international migrants to maintain the elevated migration levels of recent years.

The Saskatchewan Immigrant Nominee Program (SINP) which continues to draw increasing numbers of international migrants, most of who choose to settle in either Regina or Saskatoon, will compensate for some of the shortfall from interprovincial migration. As well, the region's unemployment rate averaged 5.1 per cent through August, second only to Quebec city for the lowest unemployment rate of any of the major CMAs in Canada, a factor that should help draw in some migrants. On balance, net-migration will ease slightly over the forecast period to 3,400 and 3,250 people in 2011 and 2012, respectively.

TRENDS IMPACTING HOUSING

Mortgage Rates

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Short term mortgage rates and variable mortgage rates are expected to remain at historically low levels. The outlook also assumes that mortgage rates will remain relatively flat until late in 2012. This will continue to support housing demand.

Forecast Summary Regina CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	3,338	3,704	3,581	3,650	1.9	3,700	1.4
MLS® New Listings	6,355	6,219	6,146	6,100	-0.7	6,100	0.0
MLS® Average Price ($)	229,716	244,088	258,023	276,000	7.0	285,000	3.3
New Home Market							
Starts:							
Single-Detached	979	569	708	840	18.6	800	-4.8
Multiples	396	361	639	650	1.7	625	-3.8
Starts - Total	1,375	930	1,347	1,490	10.6	1,425	-4.4
Average Price ($):							
Single-Detached	359,7[illegible]	382,043	438,979	472,000	7.5	490,000	3.8
Median Price ($):							
Single-Detached	333,600	371,438	409,016	427,000	4.4	439,000	2.8
New Housing Price Index (% chg.)	26.2	5.6	5.2	4.4	-	3.9	-
Rental Market							
October Vacancy Rate (%)	0.5	0.6	1.0	1.5	-	2.0	-
Two-bedroom Average Rent (October) ($)	756	832	881	920	-	950	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	113,700	115,300	118,900	121,300	2.0	123,200	1.6
Employment Growth (%)	3.3	1.4	3.1	2.0	-	1.6	-
Unemployment rate (%)	3.8	4.3	4.7	5.1	-	4.9	-
Net Migration	2,088	3,581	3,726	3,400	-8.7	3,250	-4.4

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of October 5, 2011.

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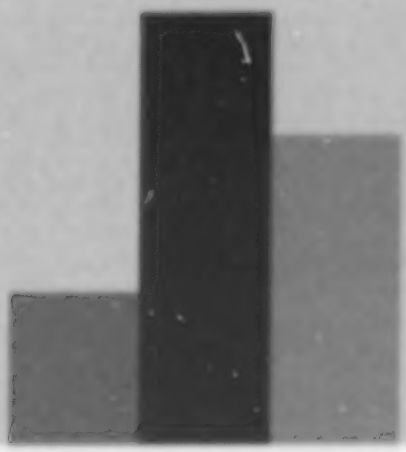

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